

**SECOND HARVEST FOOD BANK  
SANTA CRUZ COUNTY**

Financial Report

Years ended June 30, 2023 and 2022

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Second Harvest Food Bank  
Santa Cruz County  
Watsonville, California

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Second Harvest Food Bank Santa Cruz County (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank Santa Cruz County as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required By Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Second Harvest Food Bank Santa Cruz County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hatcher and Bloodgood LLP". The signature is written in a cursive, flowing style.

January 22, 2024

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

ASSETS	2023	2022
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,510,598	\$ 2,588,607
Accounts receivable	43,547	1,529
Grants receivable	366,169	801,330
Operating investment account	1,875,478	1,978,689
Inventory	903,596	4,225,964
Prepaid expenses and deposits	60,165	83,725
Total current assets	<u>5,759,553</u>	<u>9,679,844</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building	6,594,189	6,594,189
Land	627,898	627,898
Machinery and equipment	2,019,348	1,868,847
Computer equipment	610,480	595,062
Furniture and fixtures	235,388	177,502
Building improvements	1,524,038	1,067,899
	<u>11,611,341</u>	<u>10,931,397</u>
Less accumulated depreciation	<u>5,282,549</u>	<u>4,754,599</u>
	<u>6,328,792</u>	<u>6,176,798</u>
Construction in progress	254,015	35,805
Total property and equipment	<u>6,582,807</u>	<u>6,212,603</u>
<b>OTHER ASSETS</b>		
Long-term investment account	6,768,279	5,740,603
Beneficial interest in assets held by others	28,727	27,682
Total other assets	<u>6,797,006</u>	<u>5,768,285</u>
Total assets	<u>\$ 19,139,366</u>	<u>\$ 21,660,732</u>

The notes to financial statements are an integral part of these statements.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

LIABILITIES AND NET ASSETS	2023	2022
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 52,529	\$ 145,450
Accrued expenses	427,046	651,832
Deferred revenue	287,788	--
Current portion of long-term debt	85,073	81,641
Total current liabilities	<u>852,436</u>	<u>878,923</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current portion	<u>713,065</u>	<u>798,134</u>
Total liabilities	<u>1,565,501</u>	<u>1,677,057</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Undesignated	2,687,263	1,993,827
Board designated:		
Net fixed assets	6,582,807	6,212,603
Inventory	903,596	4,225,964
Equipment replacement	1,217,767	1,517,767
Food network infrastructure	600,000	800,000
Staff development fund	90,000	90,000
Disaster fund	2,450,000	2,450,000
Legacy fund	817,028	717,028
USDA rural debt service fund	116,400	116,400
Program development fund	400,000	400,000
Total net assets without donor restrictions	<u>15,864,861</u>	<u>18,523,589</u>
With donor restrictions	<u>1,709,004</u>	<u>1,460,086</u>
Total net assets	<u>17,573,865</u>	<u>19,983,675</u>
Total liabilities and net assets	<u>\$ 19,139,366</u>	<u>\$ 21,660,732</u>

The notes to financial statements are an integral part of these statements.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Donated food	\$ 18,271,979	\$ --	\$ 18,271,979
Contributions	2,109,668	812,860	2,922,528
Government grants	35,445	2,067,348	2,102,793
Foundations	1,864,068	1,329,693	3,193,761
Corporate donations	325,207	1,102,770	1,427,977
Special events revenue	102,027	--	102,027
Less cost of direct benefit to donors	(86,876)	--	(86,876)
Special events, net	15,151	--	15,151
Total support	<u>22,621,518</u>	<u>5,312,671</u>	<u>27,934,189</u>
Revenue:			
Member agency shared maintenance fees	60,840	--	60,840
Other income	31,404	--	31,404
Loss on disposal of property and equipment	(3,223)	--	(3,223)
Investment gain, net	818,735	--	818,735
Net assets released from restrictions	5,063,753	(5,063,753)	--
Total revenue	<u>5,971,509</u>	<u>(5,063,753)</u>	<u>907,756</u>
Total support and revenue	<u>28,593,027</u>	<u>248,918</u>	<u>28,841,945</u>
<b>EXPENSES</b>			
Program services:			
Food distribution:			
Food to agencies and programs	22,811,388	--	22,811,388
Food distribution expense	5,350,491	--	5,350,491
	<u>28,161,879</u>	<u>--</u>	<u>28,161,879</u>
Program and outreach	1,945,233	--	1,945,233
Total program services	<u>30,107,112</u>	<u>--</u>	<u>30,107,112</u>
Support services:			
Management and general	315,341	--	315,341
Fundraising	829,302	--	829,302
Total program and support services	<u>31,251,755</u>	<u>--</u>	<u>31,251,755</u>
<b>Increase (decrease) in net assets</b>	(2,658,728)	248,918	(2,409,810)
<b>Net assets, beginning</b>	<u>18,523,589</u>	<u>1,460,086</u>	<u>19,983,675</u>
<b>Net assets, ending</b>	<u>\$ 15,864,861</u>	<u>\$ 1,709,004</u>	<u>\$ 17,573,865</u>

The notes to financial statements are an integral part of this statement.



## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Donated food	\$ 16,258,673	\$ --	\$ 16,258,673
Contributions	2,745,616	1,042,491	3,788,107
Government grants	1,729,585	--	1,729,585
Foundations	2,437,941	822,060	3,260,001
Corporate donations	322,624	229,820	552,444
Special events revenue	126,021	--	126,021
Less cost of direct benefit to donors	(72,046)	--	(72,046)
Special events	53,975	--	53,975
Total support	<u>23,548,414</u>	<u>2,094,371</u>	<u>25,642,785</u>
Revenue:			
Member agency shared maintenance fees	716	--	716
Other income	60,307	--	60,307
Loss on disposal of property and equipment	(10,228)	--	(10,228)
Investment loss, net	(1,743,614)	--	(1,743,614)
Net assets released from restrictions	2,394,814	(2,394,814)	--
Total revenue	<u>701,995</u>	<u>(2,394,814)</u>	<u>(1,692,819)</u>
Total support and revenue	<u>24,250,409</u>	<u>(300,443)</u>	<u>23,949,966</u>
<b>EXPENSES</b>			
Program services:			
Food distribution:			
Food to agencies and programs	18,517,296	--	18,517,296
Food distribution expense	5,493,889	--	5,493,889
	<u>24,011,185</u>	<u>--</u>	<u>24,011,185</u>
Program and outreach	1,871,065	--	1,871,065
Total program services	<u>25,882,250</u>	<u>--</u>	<u>25,882,250</u>
Support services:			
Management and general	309,889	--	309,889
Fundraising	788,231	--	788,231
Total program and support services	<u>26,980,370</u>	<u>--</u>	<u>26,980,370</u>
<b>Decrease in net assets</b>	<b>(2,729,961)</b>	<b>(300,443)</b>	<b>(3,030,404)</b>
<b>Net assets, beginning</b>	<u>21,253,550</u>	<u>1,760,529</u>	<u>23,014,079</u>
<b>Net assets, ending</b>	<u>\$ 18,523,589</u>	<u>\$ 1,460,086</u>	<u>\$ 19,983,675</u>

The notes to financial statements are an integral part of this statement.

**SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

	Program Services			Support Services			Total
	Food Distribution	Programs & Outreach	Total Program Services	Management and General	Fundraising	Total Support Services	
Food distribution:							
Food to agencies and programs	\$ 22,811,388	\$ --	\$ 22,811,388	\$ --	\$ --	\$ --	\$ 22,811,388
Payroll costs	2,747,326	1,414,631	4,161,957	221,129	552,822	773,951	4,935,908
Professional services	58,287	21,887	80,174	38,639	41,024	79,663	159,837
Telephone	29,872	15,382	45,254	2,404	6,011	8,415	53,669
Dues and subscriptions	23,620	2,010	25,630	2,096	2,599	4,695	30,325
Office expense	11,013	5,671	16,684	891	2,216	3,107	19,791
Advertising	17,764	9,147	26,911	1,429	3,574	5,003	31,914
Postage	4,697	2,418	7,115	377	945	1,322	8,437
Printing and copying	22,790	11,735	34,525	1,834	4,586	6,420	40,945
Board costs	--	--	--	16,097	--	16,097	16,097
Occupancy:							
Utilities	138,267	10,125	148,392	1,172	2,695	3,867	152,259
Loan interest	31,568	2,312	33,880	268	615	883	34,763
Building maintenance	58,953	4,317	63,270	500	1,149	1,649	64,919
Storage fees off-site	80,341	--	80,341	--	--	--	80,341
Equipment maintenance and rental	194,083	99,936	294,019	15,621	39,054	54,675	348,694
Depreciation	505,543	37,021	542,564	4,285	9,854	14,139	556,703
Program supplies	180,631	70,679	251,310	913	3,160	4,073	255,383
Poundage fees	306,651	204,433	511,084	--	--	--	511,084
Food drives	27,328	--	27,328	--	27,330	27,330	54,658
Agency grants	311,319	--	311,319	--	--	--	311,319
Transportation	499,274	11,022	510,296	2,504	2,548	5,052	515,348
Training and conference	34,184	17,602	51,786	4,614	6,879	11,493	63,279
Fundraising	--	--	--	--	120,935	120,935	120,935
Insurance	66,980	4,905	71,885	568	1,306	1,874	73,759
	<u>\$ 28,161,879</u>	<u>\$ 1,945,233</u>	<u>\$ 30,107,112</u>	<u>\$ 315,341</u>	<u>\$ 829,302</u>	<u>\$ 1,144,643</u>	<u>\$ 31,251,755</u>

The notes to financial statements are an integral part of this statement.

**SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services			Support Services			Total
	Food Distribution	Programs & Outreach	Total Program Services	Management and General	Fundraising	Total Support Services	
Food distribution:							
Food to agencies and programs	\$ 18,517,296	\$ --	\$ 18,517,296	\$ --	\$ --	\$ --	\$ 18,517,296
Payroll costs	2,413,329	1,303,814	3,717,143	185,470	488,693	674,163	4,391,306
Professional services	115,353	24,803	140,156	62,992	53,829	116,821	256,977
Telephone	24,342	13,151	37,493	1,871	4,929	6,800	44,293
Dues and subscriptions	12,763	3,208	15,971	644	6,033	6,677	22,648
Office expense	18,522	10,007	28,529	1,422	3,751	5,173	33,702
Advertising	15,776	8,523	24,299	1,212	3,195	4,407	28,706
Postage	3,873	2,092	5,965	297	784	1,081	7,046
Printing and copying	20,822	11,249	32,071	1,601	4,216	5,817	37,888
Board costs	--	--	--	13,043	--	13,043	13,043
Occupancy:							
Utilities	183,165	13,413	196,578	1,553	3,570	5,123	201,701
Loan interest	34,559	2,531	37,090	292	674	966	38,056
Building maintenance	81,523	5,970	87,493	691	1,589	2,280	89,773
Storage fees off-site	339,971	--	339,971	--	--	--	339,971
Equipment maintenance and rental	292,857	158,218	451,075	22,506	59,303	81,809	532,884
Depreciation	505,975	37,052	543,027	4,291	9,862	14,153	557,180
Program supplies	262,154	67,077	329,231	1,475	3,958	5,433	334,664
Poundage fees	260,280	173,520	433,800	--	--	--	433,800
Food drives	22,455	--	22,455	--	22,456	22,456	44,911
Agency grants	194,749	--	194,749	--	--	--	194,749
Transportation	567,715	10,582	578,297	242	463	705	579,002
Training and conference	35,964	19,430	55,394	6,198	7,283	13,481	68,875
Fundraising	--	--	--	--	111,933	111,933	111,933
Insurance	87,742	6,425	94,167	745	1,710	2,455	96,622
Bad debt	--	--	--	3,344	--	3,344	3,344
	<u>\$ 24,011,185</u>	<u>\$ 1,871,065</u>	<u>\$ 25,882,250</u>	<u>\$ 309,889</u>	<u>\$ 788,231</u>	<u>\$ 1,098,120</u>	<u>\$ 26,980,370</u>

The notes to financial statements are an integral part of this statement.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	2023	2022
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS</b>		
<b>FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (2,409,810)	\$ (3,030,404)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
In-kind contributions of food (including USDA)	(18,271,979)	(16,258,673)
Distributions of food received in-kind (including spoilage)	21,558,970	16,441,517
Depreciation	556,703	557,180
Loss on disposal of assets	3,223	10,228
Unrealized (gain) loss on investments	(700,250)	1,902,584
Change in beneficial interest in assets held by others	(1,045)	5,768
Construction in progress expensed	--	29,503
(Increase) decrease in:		
Accounts receivable	(42,018)	(558)
Grants receivable	435,161	(459,759)
Inventory	35,377	427,521
Prepaid expenses and deposits	23,560	(38,019)
Increase (decrease) in:		
Accounts payable	(92,921)	(122,883)
Accrued expenses	(224,786)	249,677
Agency grants payable	--	(1,559)
Deferred revenue	287,788	(149,009)
Net cash provided (used) by operating activities	<u>1,157,973</u>	<u>(436,886)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid to purchase investments	(2,096,228)	(2,169,592)
Cash received from sale of investments	1,872,013	3,661,532
Cash received from sale of property and equipment	3,000	10,200
Cash paid to purchase property and equipment	(933,130)	(282,332)
Net cash provided (used) by investing activities	<u>(1,154,345)</u>	<u>1,219,808</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(81,637)	(78,344)
Net cash used by financing activities	<u>(81,637)</u>	<u>(78,344)</u>
Net increase (decrease) in cash and cash equivalents	(78,009)	704,578
Cash and Cash Equivalents, beginning	2,588,607	1,884,029
Cash and Cash Equivalents, ending	<u>\$ 2,510,598</u>	<u>\$ 2,588,607</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	<u>\$ 34,763</u>	<u>\$ 38,056</u>

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business:** Second Harvest Food Bank Santa Cruz County (the “Organization”), formally Second Harvest Food Bank Serving Santa Cruz and San Benito Counties, Inc., incorporated as a nonprofit corporation in 1993. The Organization’s purpose is to acquire and distribute donated and purchased foods and United States Department of Agriculture (“USDA”) commodities to people in need throughout Santa Cruz County and the Pajaro Valley. This service is performed through a network of two hundred nonprofit food distribution agencies and programs. The mission of the Organization is working together to end hunger through healthy food, education, and leadership.

**Basis of Presentation:** The financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Trustees.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Contributions:** Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, not recognized until conditions are met. Contributions that are restricted by the donor are reported as increases in support with donor restrictions depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

A portion of the Organization’s support is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the Organization considers as cash equivalents all highly liquid investments, which include certificates of deposit with maturities ranging from three to twelve months and penalties for early withdrawal. Penalties for early withdrawal would not have a material effect on the financial statements.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property and Equipment:** Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is generally from three to thirty years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Contributed Services:** During the year ended June 30, 2023, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization received about 21,409 volunteer hours for the year ended June 30, 2023.

**Functional Allocation of Expenses:** Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services on the basis of management estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. The following expenses are allocated based on square footage usage: occupancy, utilities, maintenance, and depreciation. Personnel expenses are allocated on the basis of estimates of time and effort.

**Advertising:** Advertising costs are expensed as incurred and totaled \$31,914 and \$28,706 for the years ended June 30, 2023 and 2022, respectively.

**Income taxes:** The Organization is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code and from state franchise tax under Revenue and Taxation Code Section 23701(d).

The Financial Accounting Standards Board (“FASB”) issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of June 30, 2023, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Reclassifications:** Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation.

### NOTE 2. INVENTORY

The Organization was established to acquire and distribute donated and purchased foods and USDA commodities. The Organization's policy is to recognize the flow of food through the Organization as in-kind contributions. The Organization's policy is that inventory may neither be sold nor pledged as security for debt.

The inventory and food distribution consist of three types: 1) donated foods, 2) purchased food valued at cost, and 3) Emergency Food Assistance Program ("EFAP"). For the years ended June 30, 2023 and 2022, donated and EFAP foods are valued at a national average value of \$1.92 and \$1.79 per pound, respectively. The valuation is based on a cost study conducted by other outside professionals for the national organization, Feeding America.

### NOTE 3. INVESTMENTS

The Organization maintains two separate investment accounts. The Operating Investment Account is comprised of short-term investments that can be converted into cash within one to three market business days to meet immediate cash needs. The Long-Term Investment Account is comprised of funds that are not needed in the near future and are invested with the primary objective of growth.

### NOTE 4. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2007, the Organization established the "Second Harvest Food Forever Fund" (the "Agreement") at the Santa Cruz County Community Foundation (the "Foundation"), which was amended and restated June 30, 2014. All contributions made to the fund are irrevocable. Under the terms of the Agreement, the Foundation may substitute another beneficiary in place of the Organization at the discretion of the Foundation's Board of Directors. Earnings, net of administrative fees, are distributed to the Organization on an annual basis and in accordance with the Foundation's policy on the distribution of earnings.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 5. LONG-TERM DEBT

In May 2010, the Organization was provided a \$2,000,000 loan through the United States Department of Agriculture Rural Development Community Facilities loan program. The proceeds of the loan were to be used for a warehouse expansion project. The Organization made withdrawals on the loan funds as needed to fund the expansion costs. The loan, which bears an interest rate of 4.125% per annum, provides for monthly principal and interest payments for thirty years with the final payment due April 2040. As of June 30, 2023 and 2022, the Organization had an outstanding balance of \$798,138 and \$879,775, respectively.

Aggregate maturities or payments of principal and interest under long-term debt as of June 30, 2023, are as follows:

2024	\$	85,073
2025		88,650
2026		92,376
2027		96,260
2028		100,306
Thereafter		<u>335,473</u>
	\$	<u>798,138</u>

Interest paid on long-term debt for the years ended June 30, 2023 and 2022, was \$34,763 and \$38,056, respectively.

### NOTE 6. DONOR RESTRICTED NET ASSETS

Activity for donor restricted net assets, subject to expenditures for specified purposes or passage of time, at June 30, 2023, consisted of the following:

	Beginning 6/30/2022	Additions	Satisfied	Ending 6/30/2023
Capital campaign	\$ 11,550	\$ 37,193	\$ 48,743	\$ --
Truck wrap	--	35,000	--	35,000
Food assistance	461,941	4,494,887	3,988,414	968,414
Raley's (food purchase)	397,984	258,950	431,432	225,502
Nutrition program	32,855	--	2,917	29,938
Board auxiliary	150	--	--	150
Food purchases	43,241	--	43,241	--
Anniversary support	12,365	11,641	24,006	--
Subject to the passage of time	<u>500,000</u>	<u>475,000</u>	<u>525,000</u>	<u>450,000</u>
	<u>\$ 1,460,086</u>	<u>\$ 5,312,671</u>	<u>\$ 5,063,753</u>	<u>\$ 1,709,004</u>



## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 6. DONOR RESTRICTED NET ASSETS (CONTINUED)

For the year ended June 30, 2022, activity for donor restricted net assets was as follows:

	Beginning 6/30/2021	Additions	Satisfied	Ending 6/30/2022
Capital campaign	\$ 30,000	\$ 11,550	\$ 30,000	\$ 11,550
Food assistance	903,399	909,618	1,351,076	461,941
Raley's (food purchase)	506,334	290,280	398,630	397,984
Nutrition program	48,306	--	15,451	32,855
Board auxiliary	150	--	--	150
Food purchases	22,340	112,354	91,453	43,241
Anniversary support	--	20,569	8,204	12,365
Subject to the passage of time	250,000	750,000	500,000	500,000
	<u>\$ 1,760,529</u>	<u>\$ 2,094,371</u>	<u>\$ 2,394,814</u>	<u>\$ 1,460,086</u>

### NOTE 7. LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, exchange traded funds, and mutual funds.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, program expenses, and fundraising expenses to be paid in the subsequent year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The following table reflects the Organization's financial assets as of June 30, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include the board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 7. LIQUIDITY AND AVAILABILITY (CONTINUED)

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 2,510,598	\$ 2,588,607
Accounts receivable	43,547	1,529
Grants receivable	366,169	801,330
Operating investment account	<u>1,875,478</u>	<u>1,978,689</u>
 Total financial assets	 <u>4,795,792</u>	 <u>5,370,155</u>
 Less amounts not available to be used within one year:		
USDA Rural Development loan debt service fund	116,400	116,400
Subject to appropriation and satisfaction of donor restrictions	1,709,004	1,460,086
Less net assets with purpose restrictions less than one year	<u>(1,709,004)</u>	<u>(1,460,086)</u>
 Financial assets not available to be used within one year	 <u>116,400</u>	 <u>116,400</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 4,679,392</u>	 <u>\$ 5,253,755</u>

The Organization has a long-term investment account with a balance as of June 30, 2023 and 2022, of \$6,768,279 and \$5,740,603, respectively. Although the Organization does not intend to spend from this long term investment account, these amounts can be made available if necessary.

The Organization has seen dramatically increased support since the Coronavirus pandemic began in March of 2020. The demands for services has increased during the Coronavirus pandemic, however the Organization has managed to increase reserves. The Organization will use the reserves to address the elevated need that is expected to continue for the next few years, even though revenues are projected to decrease significantly. The reserves will be used to address higher level of food bank services, purchases of culturally appropriate foods, expand partner agency infrastructure to distribute increased level of food, increase infrastructure within the Organization to distribute more food, programs to reduce stigma around food insecurity, increase grassroots community engagement, and address diversity, equity, inclusion and belonging within the Organization's programs.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### NOTE 8. FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

- Interest in assets held at Community Foundation: Funds are invested for long-term growth, both in equities and fixed income investments, which are valued at the net asset value ("NAV") of shares held by the Foundation at year end.
- For valuation of investments categorized as level 1 the Organization used unadjusted market prices for identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Exchange traded funds	\$ 4,784,566	\$ --	\$ --	\$ 4,784,566
Mutual funds	3,859,191	--	--	3,859,191
Beneficial interest in assets held by others, measured at NAV	--	--	28,727	28,727
	<u>\$ 8,643,757</u>	<u>\$ --</u>	<u>\$ 28,727</u>	<u>\$ 8,672,484</u>

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

### NOTE 8. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments:				
Exchange traded funds	\$ 3,374,393	\$ --	\$ --	\$ 3,374,393
Mutual funds	4,344,899	--	--	4,344,899
Beneficial interest in assets held by others, measured at NAV	--	--	27,682	27,682
	<u>\$ 7,719,292</u>	<u>\$ --</u>	<u>\$ 27,682</u>	<u>\$ 7,746,974</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	2023	2022
Beginning Balance	\$ 27,682	\$ 33,450
Realized and unrealized gains (losses)	2,557	(4,172)
Less investment expenses	<u>(1,512)</u>	<u>(1,596)</u>
Ending Balance	<u>\$ 28,727</u>	<u>\$ 27,682</u>

Total investment income, net realized and unrealized losses, and investment expenses for the years ended June 30 consists of the following:

	2023	2022
Interest and dividend income	\$ 225,659	\$ 277,868
Realized and unrealized gains (losses)	700,250	(1,902,584)
Less investment expenses	<u>(107,174)</u>	<u>(118,898)</u>
Investment income (loss), net	<u>\$ 818,735</u>	<u>\$ (1,743,614)</u>

### NOTE 9. PAYMENTS TO AFFILIATES

In accordance with affiliation agreements between the Second Harvest Food Bank and organizations such as Feeding America, Ag Against Hunger, and the California Association of Food Banks, Second Harvest Food Bank pays fees based on total poundage of food received. Poundage fees paid to these affiliates for the years ended June 30, 2023 and 2022, were \$511,084 and \$433,800, respectively.

## **SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY**

Notes to Financial Statements  
Years Ended June 30, 2023 and 2022

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### **NOTE 10. CONCENTRATION OF CREDIT RISK**

The Organization maintains balances in cash and interest-bearing deposit accounts at various financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (“FDIC”) of up to \$250,000 per institution. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per institution. In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss. Uninsured cash balances at June 30, 2023 totaled approximately \$1,400,000.

### **NOTE 11. RETIREMENT PLAN**

The Organization maintains a tax deferred 403(b) retirement plan (the “Plan”) to provide retirement benefits for all eligible employees. The Plan provides for a 100% employer matching contribution up to \$1,040 per year. The Organization’s contributions for the fiscal years ending June 30, 2023 and 2022, were \$25,522 and \$26,188, respectively.

### **NOTE 12. DONATED FOOD**

During the years ended June 30, 2023 and 2022, the Organization’s contributed nonfinancial assets consisted of donated food, including USDA commodities. The donated food is recorded in the financial statements as support without donor restrictions at the estimated fair value per pound based on studies performed by Feeding America. For the years ended June 30, 2023 and 2022, donated food is valued at a national average value of \$1.92 and \$1.79 per pound, respectively.

Donated food is distributed through a network of partner agencies and programs. The Organization does not sell contributed inventory.

### **NOTE 13. SUBSEQUENT EVENTS**

Management has evaluated its June 30, 2023 and 2022 financial statements for subsequent events through January 22, 2024, the date of issuance of the financial statements. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Pass-through Agency:			
California Department of Social services -			
The Emergency Food Assistance Program			
Administrative Costs	10.568	G37023	\$ 745,953
Commodities	10.569	G37023	5,782,483
Fresno Urban Footprint	10.170	HR133	<u>34,154</u>
 Total U.S. Department of Agriculture			 <u>6,562,590</u>
U.S Department of Education			
Pass-through Agency:			
Pajaro Valley Unified School District			
Education Stabilization Fund	84.425		<u>131,449</u>
U.S Department of Health and Human Services			
Pass-through Agency:			
Salud Para La Gente			
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		<u>43,788</u>
U.S Department of Housing & Urban Development			
Management Agency:			
Pass-through Agency:			
City of Santa Cruz			
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225		25,000
City of Capitola			
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225		<u>51,686</u>
 Total U.S. Department of Housing & Urban Development			 <u>76,686</u>
 Total expenditures of federal awards			 <u><u>\$ 6,814,513</u></u>

## **SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

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### **NOTE 1. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Second Harvest Food Bank Santa Cruz County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### **NOTE 3. FOOD DONATION**

Nonmonetary assistance is reported in the schedule at the rate established by Feeding America, which was \$1.92 a pound during the fiscal year. At June 30, 2023, the Organization had food commodities totaling \$273,983 in inventory.

### **NOTE 4. FEDERAL INDIRECT RATE**

The Organization has not elected to use the 10-percent de minimis indirect cost rate.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Second Harvest Food Bank  
Santa Cruz County  
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank Santa Cruz County, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2024.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank Santa Cruz County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank Santa Cruz County's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank Santa Cruz County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Second Harvest Food Bank Santa Cruz County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hutchins and Bloodgood LLP". The signature is written in a cursive, flowing style.

January 22, 2024

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees  
Second Harvest Food Bank  
Santa Cruz County  
Watsonville, California

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Second Harvest Food Bank Santa Cruz County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank Santa Cruz County's major federal programs for the year ended June 30, 2023. Second Harvest Food Bank Santa Cruz County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Second Harvest Food Bank Santa Cruz County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Second Harvest Food Bank Santa Cruz County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Second Harvest Food Bank Santa Cruz County's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Second Harvest Food Bank Santa Cruz County's federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Second Harvest Food Bank Santa Cruz County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Second Harvest Food Bank Santa Cruz County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Second Harvest Food Bank Santa Cruz County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Second Harvest Food Bank Santa Cruz County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank Santa Cruz County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hatcherison and Bloodgood LLP". The signature is written in a cursive, flowing style.

January 22, 2024

## SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2023

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued?	Unmodified
Internal control over financial reporting:	
• Material weakness(s) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

#### Federal Awards Section

Internal control over major programs:	
• Material weakness(s) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
10.568	Emergency Food Assistance Program – Administrative Costs
10.569	Emergency Food Assistance Program – Commodities

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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## **SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2023

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### **SECTION II - FINANCIAL STATEMENT FINDINGS**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

### **SECTION III – FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS**

None reported.